IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1969

No. 398

COMPONENTS, INC., *Petitioner,*

v.

WESTERN ELECTRIC COMPANY, INCORPORATED
Respondent.

REPLY BRIEF IN SUPPORT OF PETITION FOR CERTIORARI

This petition presents questions of importance to the administration of the antitrust and patent laws which have not been, but should be answered by this Court.

Respondent (Western Electric Co.) is bound by a typical consent decree which requires it to grant licenses under its patents to "any applicant . . . at any time" at "reasonable royalties" which must be "nondiscriminatory as between licensees". Royalty provisions adjusted to reflect a "bona fide estimate" of the value of a license which respondent may receive in "exchange" for a license granted under its own patents "shall not be deemed to discriminate between licensees". If respondent Western and a license applicant (*i.e.*, petitioner, Components, Inc.) are "unable to agree within ninety (90) days upon reasonable royalties or other terms, the applicant [Components] . . . may apply to [the

decree] Court for the determination of reasonable royalties and other terms".[1]

The decision below condones procedures invoked by Western—including the invocation of *state* law—to circumvent the consent decree and to deprive Components of important rights which the decree insures.

Thus Western, operating under the decree *as it has been construed below,* effectively utilizes its mass of patents to control competition by (a) granting a license at a "standard . . . royalty" established pursuant to the "policy of Western Electric", (b) "estimating" *unilaterally* the adjustments in the "standard" royalty which in Western's *sole* judgment are necessary to render the royalty rate "reasonable" and "nondiscriminatory", (c) informing its licensees of these adjustments by letters which are said to constitute unilateral "amendments" to the "standard" license and (d) *if necessary,* suing the licensee in a *state* court for an accounting on the "amended" license contract to collect the *"adjusted"* royalty.[2]

The *necessity* for state court contract litigation arises, *as it did here,* in the event that Western's *unilateral* "adjustment" is disputed and the licensee refuses to pay the adjusted rate, *electing instead, to exercise its rights guaranteed by the consent decree to request the determination of a reasonable royalty*—NOT BY WESTERN—BUT BY THE DECREE COURT.

Western's arguments opposing the petition emphasize the insidious nature of its successful scheme for subversion of the decree to which it is subject. To camouflage the fundamental issues raised by the petition, respondent represents that this case involves merely a "dispute over royalties due . . . under a license contract" (Opp. 7), executed June 27, 1960, and effective June 1, 1960 (presumably granting Com-

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[1] The quotations are from Sections X(A), (B) and (C) of the consent decree which appear at Pet. 16a *et seq.*

[2] See, *inter alia,* Pet. 19-20 and the affidavit of H. S. Wertz, Patent Licensing Director of Western Electric (App. 80).

ponents a "nondiscriminatory license" to manufacture solid electrolytic capacitors for a "reasonable royalty" of 4½%), that Components "was endeavoring . . . to use" the consent decree "as a basis for ousting . . . the Delaware court, of jurisdiction to entertain an action by Western Electric on the contract" (Opp. 5) and that "When sought to be held to account" Components "attempted to use" the decree "as a basis for asking the District Court to relieve it of its contractual royalty obligations . . ." (Opp. 11).[3]

At no place in its "Opposition" does Western advise this Court that it has repudiated the agreement effective "on June 1, 1960" (Opp. 4) with its *per se* UNREASONABLE and discriminatory *4½% royalty provision*—or that it is *not* that "agreement" which Western seeks to enforce in its Delaware accounting action.

In the Delaware court, Western has answered petitioner's Interrogatory 2 as follows:

> "Q. 2 Is Plaintiff in this action seeking to enforce the royalty rate of four and one-half percent (4½%) as set forth in the alleged 'License Agreement' executed on or about June 27, 1960 with respect to any solid electrolytic capacitors manufactured, used or sold by defendant.
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> "A. 2 No."[4]

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[3] The "Brief in Opposition to Petition for Certiorari" is cited "Opp. —".

[4] This admission by Western emphasizes the error in the district court's denial of Components' timely request to conduct discovery on the "jurisdictional" issue. *Cf.* Question 3, Pet. 2.

Instead, the district court, *construing* the decree, and in ignorance of the facts, erroneously held that

> ". . . the final judgment was not designed to be used in the manner that Components now urges. . . . Here *an agreement* was reached in 1960 and Components seek to use this action to secure . . . a retroactive reduction of royalties . . ."
>
> . . . . . .
>
> "The action will be dismissed for lack of jurisdiction. . ." (Pet. 8a-9a)

Had the district court permitted discovery on the jurisdictional issue, as it should have, Western's own repudiation of the agreement "reached

Tacitly admitting that the 4½% royalty is UNREASONABLE *and discriminatory* Western seeks *in Delaware* to enforce only the two alleged letter "amendments" which Components never accepted (Pet. 7).[5] By these unilateral "amendments" Western undertook to change the unreasonable and discriminatory 4½% royalty to lower rates which Western —equally unilaterally—concluded *were* in accord with the decree.[6]

In the Delaware action for an accounting, Western has said that these letters are "unilateral undertakings" "in the nature of waivers"; that they "impose new obligations upon Western which form a part of the contract between the parties" and that "they did not, of course, contemplate or require any agreement or acceptance by Components" (p. 3) "because the amendatory documents [the "unilateral undertaking" letters] do not purport to modify any of Componnets' 'contract *rights*' " (p. 8) or "impose additional obligations upon Components" (p. 10), and "therefore no assent by [Components] is required" (p. 8) and the consent decree "is irrelevant" (p. 11).[7]

Disagreement between the parties as to the propriety of the royalty rates as set forth in Western's "unilateral undertakings" led to (a) the institution of the Delaware

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in 1960" would have been exposed and dismissal on the "jurisdictional" ground stated by the court would *not* have been possible. *Cf.* Opp. 8, n. 6.

This interrogatory answer was served in the Delaware accounting action after the petition was filed. Note 5, page 6 of the petition is in error to the extent that it implies that Western is attempting to enforce the 4½% royalty.

[5] "Components, Inc. has never accepted the reduced royalty rates as unilaterally proposed" (Par. 8 of the "Motion of Components, Inc. for Determination of Reasonable Royalties", Pet. 13a).

[6] These unilateral "amendments" were in the form of letters from Western to Components, dated December 4, 1963 and October 4, 1965. Pertinent portions of these letters are reproduced at Pet. 7, n. 6.

[7] The quotations are from "Plaintiff's [Western's] Answering Brief In Opposition to Defendant's [Components'] Motion to Dismiss" filed September 11, 1969 in CA 2820 pending in the Court of Chancery for the State of Delaware.

accounting action *by Western* and (b) the application for a determination of reasonable royalties in the decree court *by Components.*

The court below held (a) that the existence of the 1960 license "agreement" is a *jurisdictional bar* to Components' exercise of the rights conferred by the consent decree, including the *right* to a reasonable royalty determination, and (b) that "it would appear unwise, for reasons of sound judicial administration and 'a proper regard for the autonomy of the states,' to preempt that previously filed state action" (Pet. 4a-5a).

The court below seemingly overlooked the fact that Western by its "state action" has deprived Components of the rights guaranteed by the antitrust decree (a) to have the alleged June 1, 1960 agreement with its unreasonable and discriminatory 4½% royalty provisions declared invalid or unenforceable for noncompliance with the decree's mandate and (b) to have a reasonable royalty determined, NOT by Western *but by the* DECREE *court.*

The court below has erroneously permitted the "state action" to preempt and subvert federal antitrust and patent policy as embodied in the decree. And it has done so by adopting Western's own *narrow* construction successfully calculated to insure federal court endorsement of its scheme to circumvent the decree's provisions in derogation of the public interest.

Thus questions "1" and "2" presented by the petition (p. 2) are at the heart of this case. It is believed that these questions should be considered now if the decision below is not to stand as an open invitation to others subject to similar antitrust judgments to subvert their mandate in the manner successfully invoked by Western.

Respondent says that "both courts below decided that no reasonable *construction* [of the decree] supported Components' position" (Opp. 8)—and hence *acknowledges* that both courts *exercised their jurisdiction* to construe the

decree.[8] *A fortiori* the dismissal for "lack of jurisdiction" *conflicts directly* with the controlling decisions of this Court cited at page 23 of the petition. While these decisions and the rule they enunciate were strongly urged below,[9] they were "overruled" *sub silentio* by the appellate court *as a necessary step to the result reached.* The situation is aggravated by the court's refusal to permit Components discovery on the jurisdictional issue.[10] Question 3 on the petition (p. 2) is a substantial paraphrase of one of the express questions presented to the court below (Pet. 23a) and is squarely raised on the record of this case. *The fundamental issue presented is whether the lower courts may with impunity ignore the controlling decisions of this Court as an expedient means for reaching a result otherwise foreclosed.* If this Court's pronouncements *had* been followed, there could have been *no* dismissal for "lack of jurisdiction".

Arguing that the decision below is correct, Western advances the truism that one who seeks jurisdictional determination of reasonable royalties pursuant to a consent decree must bring himself within the terms of the decree provisions upon which he relies (Opp. 9). Definitely, Components' motion pleading includes allegations which, if proved, satisfy that prerequisite. If accepted as proved as they should have been by the courts below, summary

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[8] Respondent's assertion in the very next sentence of its opposition that "the District Court expressly declined to exercise jurisdiction to consider the merits (P8a-9a)" (Opp. 8) is deceptive. The district court *refrained* "from any comment" on *"the validity of the contract"* between Components and Western—not *on the merits of the claim asserted by Components* that it was entitled to a reasonable royalty determination by the decree court.

[9] See the "Petition for Rehearing", p. 1. The same point was urged on the basis of the same authority in both of petitioner's briefs below.

[10] See note 4, *supra*, p. 3. Respondent's note 6, p. 8, begs the question. The reasonable royalty determinations of paragraph XB of the consent decree were, of course, included for the very purpose of permitting applicants "not a party to the judgment" to exercise the rights therein provided.

dismissal would have been precluded. *Cf.* Pet. 2, Question 4.[11]

Further endeavoring to support the decision below, Western argues, as it did before the appellate court, that it is a prerequisite to an application for reasonable royalties under paragraph X(B) of the decree that the parties be "unable to agree" and that even where these conditions are met, the decree court has retained jurisdiction only to determine reasonable royalties "for the future".

As to the first point of Western's argument, Western definitely is *not* attempting to enforce the 4½% royalty provision upon which the parties "agreed" in 1960. Instead Western is trying to enforce *different* royalty provisions upon which the parties have, in fact, been "unable to agree". Western's final point is inconsistent with the express language of paragraph X(A) of the decree itself which expressly orders Western to grant licenses under its patents to "any applicant . . . at any time" [12]

Application of Clark Walter & Sons, Inc., D.C. N.J., Feb. 26, 1968, unreported, *aff'd* 392 U.S. 659 (1968), is miscited by Western (Opp. 11, n. 8). *Clark Walter* is an intervention case under Federal Civil Rule 24 by which the would-be intervenor sought to enforce the provisions of the consent decree itself against Western. This circumstance has no relation to the facts which prevail here, to wit, Components' refusal to accept as a bar to its right to exercise the reason-

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[11] Significant in this regard is the refusal of both courts to accept the averments of Components' pleading that the *June 1, 1960 agreement* was void or unenforceable and could *not* be raised as a bar to Components' reasonable royalty application. It now appears from the discovery so far completed in the Delaware state court—but denied by the decree court—that these averments *are true*. Indeed, Western is not even attempting to enforce the illegal "June 1, 1960 agreement". See p. 3, *supra*.

[12] Western's attempt (Opp. 10, n. 7) to suggest that this language is inapposite because it "does not appear" in paragraph X(B) must fail. Paragraphs X(A) and X(B) must be read together. Paragraph X(A) orders Western to grant licenses "to any *applicant* . . . at any time". Paragraph X(B) provides that if the parties are unable to agree upon the terms of the license under Western's patents, "*applicant* . . . may apply to the [decree] Court for the determination of reasonable royalties".

able royalty determination provisions of Section X of the consent decree, the admittedly illegal 4½% royalty contract which Western wrongfully induced it to "accept" in 1960.

As noted in the petition, Western's insistence—and the lower court's rulings—that this illegal 1960 contract forecloses Components' rights under the decree is in fact a determination that Western, having induced Components to sign a contract in derogation of the decree, can now impose that illicit agreement as a bar to the very relief which the subverted decree authorizes. *Cf.* Pet. 21.

CONCLUSION

It is respectfully requested that the petition be granted.

Respectfully submitted,

GENE W. STOCKMAN
1000 Connecticut Avenue, N.W.
Washington, D. C. 20036
Attorney for Petitioner
Components, Inc.

Of Counsel:

FRANK A. STEINHILPER
Rosen & Steinhilper
200 Boylston Street
Chestnut Hill, Mass. 02167